



MIDLAND COUNTY ROAD COMMISSION

(A Component Unit of Midland County, Michigan)

Financial Statements

For the Year Ended December 31, 2007



SMITH & KLACZKIEWICZ, PC
CPA'S AND CONSULTANTS

MIDLAND COUNTY ROAD COMMISSION
(A Component Unit of Midland County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements for the Year Ended December 31, 2007	
Statement of Net Assets and General Fund Balance Sheet	11
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	12
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	15-16
Notes to Financial Statements	17-25
Operating Fund Schedules	
General Operating Fund – Schedule of Revenues by Component	26
General Operating Fund – Schedule of Expenditures by Component	27
General Operating Fund – Schedule of Changes in Fund Balance	28
Internal Control and Compliance Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	29-30
Schedule of Findings and Responses	31-32

SMITH & KLACZKIEWICZ, PC

CPA'S AND CONSULTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

INDEPENDENT AUDITORS' REPORT

Members of the Board of County
Road Commissioners
County of Midland, Michigan
Sanford, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Midland County Road Commission**, a component unit of Midland County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Midland County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Midland County Road Commission**, as of December 31, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note D to the financial statements, certain errors resulting in overstatement of payroll liabilities and understatement of prepaid expenditures in the General Fund as of December 31, 2006, were discovered by management of the Road Commission during the current year. Accordingly, an adjustment has been made to fund balance and net assets as of December 31, 2006, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2008, on our consideration of the **Midland County Road Commission's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Midland County Road Commission's** basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Smith + Klaehwiig PC

Saginaw, Michigan
May 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Midland County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Midland County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Midland County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Midland County, which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 11 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-

wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 15 and 16 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's net assets increased approximately 11% or \$3,262,746, from \$29,375,712 to \$32,638,458 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Midland County Road Commission Net Assets:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Current and other assets	\$ 3,621,228	\$ 3,672,026	\$ (50,798)
Capital assets	<u>31,084,188</u>	<u>27,458,323</u>	<u>3,625,865</u>
Total assets	<u>34,705,416</u>	<u>31,130,349</u>	<u>3,575,067</u>
Long-term liabilities	505,792	436,718	69,074
Other liabilities	<u>1,561,166</u>	<u>1,416,389</u>	<u>144,777</u>
Total liabilities	<u>2,066,958</u>	<u>1,853,107</u>	<u>213,851</u>
Net assets:			
Invested in capital assets, net of related debt	31,084,188	27,458,323	3,625,865
Unrestricted	<u>1,554,270</u>	<u>1,917,389</u>	<u>(363,119)</u>
Total net assets	<u>\$ 32,638,458</u>	<u>\$ 29,375,712</u>	<u>\$ 3,262,746</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Midland County Road Commission, assets exceeded liabilities by \$32,638,458 at the close of the most recent fiscal year.

By far the largest portion of the Midland County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the Midland County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Program revenue			
Charges for services	\$ 1,982,908	\$ 1,741,768	\$ 241,140
Operating grants and contributions			
State transportation funds	7,047,424	6,364,147	683,277
Capital grants and contributions			
Federal and state sources	647,362	1,057,175	(409,813)
General revenue			
Taxes	1,141,393	1,120,214	21,179
Interest and rents	59,888	76,808	(16,920)
Contributions not restricted to program	9,473	106	9,367
Gain on sale of equipment disposal	16,754	122,133	(105,379)
Total revenue	<u>10,905,202</u>	<u>10,482,351</u>	<u>422,851</u>
Expenses			
Public works	<u>7,642,456</u>	<u>6,486,446</u>	<u>1,156,010</u>
Increase (decrease) in net assets	<u>\$ 3,262,746</u>	<u>\$ 3,995,905</u>	<u>\$ (733,159)</u>

Governmental activities increased the Midland County Road Commission's net assets by \$3,262,746. The key elements of this increase are as follows:

- There was a 14% increase in charges for services from the prior year due mainly to non-recurring projects performed on Township roads in 2007.
- There was a 10% increase in the State transportation funds in the current year.
- There was a 39% decrease in capital grants and contributions from the prior year, due to decreases in non-recurring maintenance projects funded with State and Federal sources.
- Purchases of capital assets were greater than disposals of capital assets and depreciation expense.

A summary of changes on the Operating fund is as follows:

	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual for the Year Ended December 31, 2006
Revenues					
Taxes	\$ 1,100,000	\$ 1,142,000	\$ 1,141,393	\$ (607)	\$ 1,120,214
Permits and licences	15,000	15,500	15,425	(75)	16,075
Federal sources	624,000	600,200	599,227	(973)	1,009,040
State sources	7,092,700	7,096,300	7,095,559	(741)	6,412,282
Contributions	1,000,000	1,401,400	1,400,909	(491)	1,215,631
Charges for services	500,000	566,700	566,574	(126)	510,062
Interest and rentals	55,000	60,000	59,888	(112)	76,808
Other revenue	80,000	41,130	40,286	(844)	122,239
Total revenue	<u>10,466,700</u>	<u>10,923,230</u>	<u>10,919,261</u>	<u>(3,969)</u>	<u>10,482,351</u>
Expenditures					
Primary road construction	-	307,600	307,584	16	104,985
Primary road maintenance	4,369,500	4,594,700	4,594,374	326	5,401,785
Local road maintenance	4,985,000	5,262,400	5,261,896	504	4,462,112
State trunkline maintenance	500,000	611,000	610,783	217	456,036
State trunkline non-maint.	-	-	-	-	43,112
Equipment expense (net)	(340,000)	(208,500)	(208,496)	(4)	(288,757)
Administrative expense (net)	430,000	450,300	450,251	49	417,135
Capital outlay (net)	479,000	185,300	184,800	500	329,255
Other	120,000	12,200	12,114	86	10,150
Total expenditures	<u>10,543,500</u>	<u>11,215,000</u>	<u>11,213,306</u>	<u>1,694</u>	<u>10,935,813</u>
Net change in fund balance	(76,800)	(291,770)	(294,045)	(2,275)	(453,462)
Fund balances, beginning of year, as restated	<u>2,255,637</u>	<u>2,255,637</u>	<u>2,354,107</u>	<u>98,470</u>	<u>2,709,099</u>
Fund balances, end of year	<u>\$ 2,178,837</u>	<u>\$ 1,963,867</u>	<u>\$ 2,060,062</u>	<u>\$ 96,195</u>	<u>\$ 2,255,637</u>

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$456,530 higher than the original budget primarily due to changes in projections for revenue from contributions from townships. The actual revenue recognized during 2007 was less than the final amended budget by \$3,969.

The final amended expenditure budget for 2007 was \$671,500 higher than the original budget primarily due to changes in projections for maintenance, equipment and capital outlay expenditures. The actual expenditures recognized during 2007 were less than the final amended budget by \$1,694. There was an unfavorable variance in one expenditure line item, as presented on page 16, due mainly to a year-end adjustment to distributive expenses that caused actual expenditures to be higher than the amended budget.

Capital Assets and Debt Administration

As of December 31, 2007, the Midland County Road Commission had invested \$31,084,188 in capital assets. This amount represents a net increase (including additions and deductions) of \$3,625,865 or 13.20% as follows:

	2007	2006	Percentage Change 2006/2007
Capital assets not being depreciated			
Land and improvements	\$ 3,707,685	\$ 3,619,170	2.45%
Land / right-of-ways	8,700	8,700	0.00%
Subtotal	<u>3,716,385</u>	<u>3,627,870</u>	2.44%
Capital assets being depreciated			
Buildings	2,815,096	2,815,096	0.00%
Equipment	6,007,922	5,288,959	13.59%
Infrastructure	<u>27,276,186</u>	<u>22,705,357</u>	20.13%
Subtotal	<u>36,099,204</u>	<u>30,809,412</u>	17.17%
Total capital assets	39,815,589	34,437,282	15.62%
Total accumulated depreciation	<u>(8,731,401)</u>	<u>(6,978,959)</u>	25.11%
Total net capital assets	<u><u>\$ 31,084,188</u></u>	<u><u>\$ 27,458,323</u></u>	13.20%

Major capital asset events during the current fiscal year included the following:

Reconstruction of bridges	\$ 2,288,245
Various resurfacing of roads	2,371,099
Equipment	<u>912,091</u>
Total Additions	<u><u>\$ 5,571,435</u></u>

The Midland County Road Commission disposed of equipment during 2007 with a purchase price of \$193,128 and related depreciation of \$179,069 and received proceeds from the sale of capital assets of \$44,872.

Additional information on the Road Commission's capital assets can be found in note C on pages 21 and 22.

Long-term debt

At the year-end, the Midland County Road Commission had no notes, bonds or installment purchases agreements outstanding.

Other obligations include accrued vacation and sick leave pay. More detailed information about the Road Commission's long-term liabilities is presented in Note C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 52% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Midland County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Midland County.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Midland County Road Commission, 2334 N. Meridian Road, Sanford, Michigan 48657.

BASIC FINANCIAL STATEMENTS

MIDLAND COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and interest bearing deposits	\$ 437,397	\$ -	\$ 437,397
Accounts receivable			
State trunkline maintenance	112,081	-	112,081
Due on county road agreements	422,209	-	422,209
Michigan Transportation Fund	880,018	-	880,018
Property taxes	1,162,000	-	1,162,000
Inventories			
Equipment material and parts	113,158	-	113,158
Road materials	412,098	-	412,098
Prepaid expenditures	82,267		82,267
Capital assets			
Land and improvements / rights-of-way	-	3,716,385	3,716,385
Property and equipment - net of accumulated depreciation	-	3,946,824	3,946,824
Infrastructure - net of accumulated depreciation	-	23,420,979	23,420,979
Total assets	\$ 3,621,228	31,084,188	34,705,416
LIABILITIES			
Accounts payable	\$ 114,796	\$ -	\$ 114,796
Accrued liabilities	59,526	-	59,526
Due to employees	711	-	711
Advances			
State trunkline equipment purchase	140,720	-	140,720
State trunkline maintenance	48,413	-	48,413
Deferred revenue	1,162,000	-	1,162,000
Performance deposits	35,000	-	35,000
Long-term liabilities			
Due within one year	-	246,192	246,192
Due after one year	-	259,600	259,600
Total liabilities	1,561,166	505,792	2,066,958
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	525,256	(525,256)	-
Reserved for prepaid expenditures	82,267	(82,267)	-
Unreserved, undesignated	1,452,539	(1,452,539)	-
Total fund balance	2,060,062	(2,060,062)	-
Total liabilities and fund balance	\$ 3,621,228		
Net Assets:			
Invested in capital assets, net of related debt		31,084,188	31,084,188
Unrestricted		1,554,270	1,554,270
Total net assets		\$ 32,638,458	\$ 32,638,458

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund	\$ 2,060,062
------------------------------	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and improvements / right-of-way	3,716,385
Add - property and equipment	8,823,018
Add - infrastructure	27,276,186
Deduct - accumulated depreciation	(8,731,401)

Long-term accrued compensated absennces are not due and payable in the current period and therefore are not reported in the funds.

(505,792)

Net assets of governmental activities	<u><u>\$ 32,638,458</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 5,641,871	\$ 2,000,585	\$ 7,642,456
Capital outlay	5,571,435	(5,571,435)	-
Total expenditures/expenses	<u>11,213,306</u>	<u>(3,570,850)</u>	<u>7,642,456</u>
Program revenue			
Charges for services	1,982,908	-	1,982,908
Operating grants and contributions			
State transportation funds	7,047,424	-	7,047,424
Capital grants and contributions			
Federal and state sources	<u>647,362</u>	<u>-</u>	<u>647,362</u>
Total program revenue	<u>9,677,694</u>	<u>-</u>	<u>9,677,694</u>
Net program revenue			<u>2,035,238</u>
General revenue			
Taxes	1,141,393	-	1,141,393
Interest and rents	59,888	-	59,888
Contributions not restricted to programs	9,473	-	9,473
Gain on sale of assets	<u>30,813</u>	<u>(14,059)</u>	<u>16,754</u>
Total general revenue	<u>1,241,567</u>	<u>(14,059)</u>	<u>1,227,508</u>
Total revenue	<u>10,919,261</u>		
Revenue over (under) expenditures	(294,045)	294,045	-
Changes in net assets	-	3,262,746	3,262,746
Fund balance/net assets:			
Beginning of the year, as restated	<u>2,354,107</u>	<u>27,021,605</u>	<u>29,375,712</u>
End of the year	<u>\$ 2,060,062</u>	<u>\$ 30,578,396</u>	<u>\$ 32,638,458</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2007

Change in fund balance - General Fund	\$ (294,045)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	912,091
Add - Infrastructure purchases	4,659,344
Deduct - depreciation expense	(1,931,511)
Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	(14,059)
The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	(69,074)
Change in net assets of governmental activities	<u>\$ 3,262,746</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued) FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes				
County millage	\$ 1,100,000	\$ 1,142,000	\$ 1,141,393	\$ (607)
Permits and licenses	15,000	15,500	15,425	(75)
Federal sources				
Surface transportation program	384,000	343,000	342,053	(947)
D Funds	-	52,000	52,000	-
Safety grant	240,000	205,200	205,174	(26)
State sources				
Michigan transportation funds				
Engineering	-	-	10,000	10,000
Urban road	-	-	560,972	560,972
Allocation	5,690,000	5,663,400	5,092,257	(571,143)
Other				
State critical bridge	1,354,500	1,364,700	1,371,195	6,495
State jobs today	-	20,000	13,000	(7,000)
Economic development funds				
Forest road (E)	48,200	48,200	48,135	(65)
Contributions				
Cities and villages	100,000	71,000	11,059	(59,941)
Townships	900,000	1,330,400	1,330,331	(69)
Other governments	-	-	59,519	59,519
Charges for services				
State trunkline maintenance	500,000	551,300	551,201	(99)
Salvage sales	-	15,400	15,373	(27)
Interest and rentals	55,000	60,000	59,888	(112)
Other revenue				
Proceeds on equipment disposals	80,000	31,000	30,813	(187)
Proceeds / royalties	-	130	-	(130)
Contributions from private sources	-	10,000	9,473	(527)
Total revenue	<u>10,466,700</u>	<u>10,923,230</u>	<u>10,919,261</u>	<u>(3,969)</u>

MIDLAND COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
Primary Road				
Construction / capacity improvement	\$ -	\$ 307,600	\$ 307,584	\$ 16
Preservation / structural improvements	2,394,500	1,845,500	1,845,262	238
Maintenance	1,975,000	2,749,200	2,749,112	88
Local Road				
Preservation / structural improvements	2,730,000	2,508,400	2,508,332	68
Maintenance	2,255,000	2,754,000	2,753,564	436
Total maintenance	9,354,500	10,164,700	10,163,854	846
State trunkline maintenance	500,000	611,000	610,783	217
Equipment expense (net)	(340,000)	(208,500)	(208,496)	(4)
Administrative expense (net)	430,000	450,300	450,251	49
Capital outlay (net)	479,000	185,300	184,800	500
Other				
Tax appeal payback	100,000	-	-	-
Cities and villages	20,000	12,200	12,114	86
Total expenditures	10,543,500	11,215,000	11,213,306	1,694
Net change in fund balance	(76,800)	(291,770)	(294,045)	(2,275)
Fund balances, beginning of year as previously stated	2,255,637	2,255,637	2,255,637	-
Prior period adjustments	-	-	98,470	98,470
Fund balances, beginning of year as restated	2,255,637	2,255,637	2,354,107	98,470
Fund balances, end of year	<u>\$ 2,178,837</u>	<u>\$ 1,963,867</u>	<u>\$ 2,060,062</u>	<u>\$ 96,195</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Midland County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The *Midland County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Midland, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balances and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Assets, Liabilities, and Net Assets or Equity

Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

Inventory

Inventory, consisting of various operating parts, supplies and road material is stated cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenditures in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Since the year ended December 31, 2004, costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) have been capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively. The Road Commission is a phase 3 government and has elected not to retroactively report major general infrastructure assets.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

Deferred Revenue

Under the modified accrual basis of accounting, amounts that are measurable, but not available to pay liabilities of the current period are classified as deferred revenue. The balance of deferred revenue at year-end consists of property taxes levied for the subsequent fiscal year.

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2007, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Engineer / Manager submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

NOTE C - DETAILED NOTES ON ALL FUNDS

Deposits

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	Cash and Cash Equivalents
Cash on hand	\$ 200
Other demand accounts	<u>437,197</u>
	<u><u>\$ 437,397</u></u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk

The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$557,039 of the Road Commission's bank balance of \$657,039 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Additions	Disposals	Balance December 31, 2007
Capital assets not being depreciated				
Land and improvements	\$ 3,707,685	\$ -	\$ -	\$ 3,707,685
Land / right-of-way	<u>8,700</u>	<u>-</u>	<u>-</u>	<u>8,700</u>
Total capital assets not being depreciated	<u>3,716,385</u>	<u>-</u>	<u>-</u>	<u>3,716,385</u>
Capital assets being depreciated				
Buildings	2,815,096	-	-	2,815,096
Road equipment	4,975,595	911,564	(154,809)	5,732,350
Shop equipment	144,016	-	(33,113)	110,903
Office equipment	91,749	527	(5,206)	87,070
Engineer equipment	77,599	-	-	77,599
Infrastructure - bridges	2,457,383	2,288,245	-	4,745,628
Infrastructure – roads	20,092,012	2,371,099	-	22,463,111
Infrastructure – traffic signals	<u>67,447</u>	<u>-</u>	<u>-</u>	<u>67,447</u>
Total capital assets being depreciated	<u>30,720,897</u>	<u>5,571,435</u>	<u>(193,128)</u>	<u>36,099,204</u>

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2007	Additions	Disposals	Balance December 31, 2007
Less accumulated depreciation				
Buildings	\$ (768,799)	\$ (56,328)	\$ -	\$ (825,127)
Road equipment	(3,295,968)	(645,008)	140,750	(3,800,226)
Shop equipment	(140,419)	(2,020)	33,113	(109,326)
Office equipment	(76,054)	(4,491)	5,206	(75,339)
Engineer equipment	(60,501)	(5,675)	-	(66,176)
Infrastructure – bridges	(92,421)	(73,116)	-	(165,537)
Infrastructure – roads	(2,524,461)	(1,140,354)	-	(3,664,815)
Infrastructure – traffic signals	(20,336)	(4,519)	-	(24,855)
Total accumulated depreciation	(6,978,959)	(1,931,511)	179,069	(8,731,401)
Net capital assets being depreciated	23,741,938	3,639,924	(14,059)	27,367,803
Total net capital assets	\$ 27,458,323	\$ 3,639,924	\$ (14,059)	\$ 31,084,188

Long-Term Debt

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Increases	(Decreases)	Balance December 31, 2007	Due Within One Year
Compensated absences	\$ 436,718	\$ 300,534	\$ (231,460)	\$ 505,792	\$ 246,192

NOTE D - OTHER INFORMATION

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 13.27% of annual covered payroll for general employees and 19.53% for non-union supervisors. Road Commission employees are required to contribute 4% of their annual covered payroll. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$279,681 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 239,142	100%	\$ -
12/31/2006	262,984	100	-
12/31/2007	279,681	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2004	\$ 8,088,227	\$ 11,073,375	\$ 2,985,148	73%	\$ 2,003,455	149%
12/31/2005	8,169,785	11,625,047	3,455,262	70	1,930,314	179
12/31/2006	8,418,073	11,987,230	3,569,157	70	1,929,274	185

Other Postemployment Benefits

The Road Commission provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 16 retirees are eligible. The Road Commission includes retirees and their spouses in its insured healthcare plan, with no contribution required by any of the participants for previous employees who retired on or after June 28, 1999, in accordance with union contracts.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission also includes pre-Medicare retirees and their spouses in its insured healthcare plan, with no contribution required by any of the participants for previous employees who retired prior to June 28, 1999, in accordance with union contracts. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, approximately \$230,808 for postemployment healthcare benefits was paid and recorded as an expenditure in the General Fund.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the Road Commission’s year ending December 31, 2008.

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

Federal Award Expenditure / Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2007, the Road Commission recorded expenditures of federal awards in the amount of \$599,227. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Midland County Road Commission; therefore a single audit for the Road Commission is not required.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Restatements / Prior Period Adjustments

During the year ended December 31, 2007, a net restatement in the amount of \$98,470 was necessary to properly account for payroll liabilities and prepaid expenditures in the General Fund. The errors have been corrected and had the following effect on the beginning fund balance:

Beginning fund balance, as previously stated	\$ 2,255,637
Adjustment for payroll liabilities	23,987
Adjustment for prepaid expenditures	<u>74,483</u>
Beginning fund balance, as restated	<u>\$ 2,354,107</u>

During the year ended December 31, 2007, a net restatement in the amount of \$98,470 was necessary to properly account for payroll liabilities and prepaid expenditures in the Governmental Activities. The errors have been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously stated	\$ 29,277,242
Adjustment for payroll liabilities	23,987
Adjustment for prepaid expenditures	<u>74,483</u>
Beginning net assets, as restated	<u>\$ 29,375,712</u>

* * * * *

MIDLAND COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Taxes				
County millage	\$ -	\$ 1,141,393	\$ -	\$ 1,141,393
Permits and licenses	-	-	15,425	15,425
Federal sources				
Bridge	-	342,053	-	342,053
D funds	52,000	-	-	52,000
Safety grant	205,174	-	-	205,174
State sources				
Michigan transportation funds				
Engineering	7,000	3,000	-	10,000
Urban road	406,643	154,329	-	560,972
Allocation	3,680,522	1,411,735	-	5,092,257
Other				
State critical bridge	884,166	487,029	-	1,371,195
State jobs today	13,000	-	-	13,000
Economic development funds				
Forest road (E funds)	48,135	-	-	48,135
Contributions from local units				
City and Village	-	-	11,059	11,059
Townships	-	1,330,331	-	1,330,331
Other governments	-	59,519	-	59,519
Charges for services				
State trunkline maintenance	-	-	551,201	551,201
Salvage sales	-	-	15,373	15,373
Interest and rentals	59,888	-	-	59,888
Other				
Gain on equipment disposals	16,938	-	13,875	30,813
Contributions from private sources	-	-	9,473	9,473
Total revenues	\$ 5,373,466	\$ 4,929,389	\$ 616,406	\$ 10,919,261

MIDLAND COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Construction / Capacity Improvement Structures	\$ 307,584	\$ -	\$ -	\$ 307,584
Preservation / Structural Improvements				
Roads	544,082	1,545,407	-	2,089,489
Structures	1,018,232	962,925	-	1,981,157
Safety projects	282,948	-	-	282,948
Maintenance				
Roads	1,818,787	2,142,667	-	3,961,454
Winter maintenance	766,003	501,307	-	1,267,310
Traffic control	164,322	109,590	-	273,912
Total maintenance	4,901,958	5,261,896	-	10,163,854
State trunkline maintenance	-	-	610,783	610,783
Equipment expense (net)	(70,847)	(115,319)	(22,330)	(208,496)
Administrative expense (net)	217,153	233,098	-	450,251
Capital outlay (net)	174,850	-	9,950	184,800
Other				
Cities and villages	-	-	12,114	12,114
Total expenditures	\$ 5,223,114	\$ 5,379,675	\$ 610,517	\$ 11,213,306

MIDLAND COUNTY ROAD COMMISSION

GENERAL OPERATING FUND

SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 5,373,466	\$ 4,929,389	\$ 616,406	\$ 10,919,261
Total expenditures	5,223,114	5,379,675	610,517	11,213,306
Revenues over (under) expenditures	150,352	(450,286)	5,889	(294,045)
Other financing sources (uses)				
Intrafund transfers	(491,300)	491,300	-	-
Revenues and other sources over (under) expenditures and other sources (uses)	(340,948)	41,014	5,889	(294,045)
Fund balance, beginning of year, as previously stated	375,734	232,683	1,647,220	2,255,637
Prior period adjustments	-	-	98,470	98,470
Fund balance, beginning of year, as restated	375,734	232,683	1,745,690	2,354,107
Fund balance, end of year	<u>\$ 34,786</u>	<u>\$ 273,697</u>	<u>\$ 1,751,579</u>	<u>\$ 2,060,062</u>

SMITH & KLACZKIEWICZ, PC

CPA'S AND CONSULTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of County
Road Commissioners
County of Midland, Michigan
Midland, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **Midland County Road Commission**, a component unit of Midland County, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated May 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Midland County Road Commission's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Midland County Road Commission's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following deficiencies to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Midland County Road Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did not audit **Midland County Road Commission's** responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Smith + Klaesheimig PC

Saginaw, Michigan
May 23, 2008

MIDLAND COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Road Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Road Commission to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 - Recording, Processing and Summarizing Certain Accounting Data (Audit Adjustments)

Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition: As is the case with many smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Road Commission has placed reliance on its *external* auditors, who cannot by definition be considered a part of the Road Commission's *internal* controls.

MIDLAND COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

Effect: As a result of this condition, the Road Commission lacks internal controls over the recording, processing, and summarizing of certain accounting data, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of certain accounting data, and determined that it is in the best interests of the Road Commission to rely on its external auditors to recommend the necessary adjustments.